To all interested parties:

Attached you will find a copy of the draft Fiscal Year 1998 Intended Use Plan for Montana's Drinking Water State Revolving Fund Program. This program will offer below-market loans for construction of public health-related infrastructure improvements as well as provide funding for other activities related to public health and compliance with the Safe Drinking Water Act (SDWA).

Each year, the state Department of Environmental Quality must prepare an Intended Use Plan for submittal to the U.S. Environmental Protection Agency before receiving federal capitalization funds. This plan lists eligible projects in Montana ranked according to funding priority, discusses our method of financing these projects, sets target goals for loan commitments, and outlines our proposed activities under set-aside accounts.

Before drafting this plan, the Department of Environmental Quality and the Department of Natural Resources and Conservation met with the advisory committee overseeing this program to discuss key policy decisions within the plan. The Drinking Water SRF Advisory Committee consists of one state representative, one state senator, one town mayor representing the League of Cities and Towns, one county commissioner representing the Montana Association of Counties, one representative from the Department of Natural Resources and Conservation, and one representative from the Department of Environmental Quality. The Committee will review the final plan after public comment is received and before it is submitted to EPA.

A public hearing on this plan will be held from 1:00 to 5:00 p.m. Thursday, October 23, in room 111 of the Metcalf Building, at 1520 East Sixth Avenue in Helena, Montana. If all comments have been heard before 5:00 p.m., the hearing will conclude earlier. Additional copies and/or information may be obtained from the DEQ Planning, Prevention and Assistance Division, P.O. Box 200901, Helena, Montana 59620-0901, telephone (406) 444-6697. Copies also are available on the DEQ website at http://www.deq.mt.gov/, on the State Bulletin Board System at (406) 444-5648, and at various libraries across Montana.

Oral or written comments on the priority list may be presented at the public hearing or sent to Tom Livers, Bureau Chief for Technical and Financial Assistance, P.O. Box 200901, Helena, MT 59620-0901. These comments must be received by 5:00 p.m. October 23, 1997. Thanks for your interest.

Sincerely,

Tom Livers
Bureau Chief, Technical
& Financial Assistance

Attachment

Montana Department of Environmental Quality
Drinking Water State Revolving Fund
Intended Use Plan, State Fiscal Year 1998

INTRODUCTION

The 1997 Montana Legislature set in motion the creation of a drinking water revolving fund in its passage of HB483. This bill made Montana law consistent with the federal legislation (reauthorization of the Safe Drinking Water Act) passed in 1996, it authorized the Department of Environmental Quality and the Department of Natural Resources and Conservation to develop and implement the program, and it established the Drinking Water SRF Advisory Committee.

The Advisory Committee consists of one state representative, one state senator, one town mayor representing the Montana League of Cities and Towns, one county commissioner representing the Montana Association of Counties, one representative from the Department of Natural Resources and Conservation, and one representative from the Department of Environmental Quality. The Committee advises DEQ and DNRC on policy decisions that arise in developing and implementing the Drinking Water SRF, and it reviews the DWSRF Intended Use Plan.

The Drinking Water State Revolving Fund (DWSRF) program will offer below-market loans for construction of public health-related infrastructure improvements as well as provide funding for other activities related to public health and compliance with the Safe Drinking Water Act (SDWA). These other activities, or set-asides, include administration of the DWSRF program, technical assistance to small communities, source water assessment and delineation, operator certification, administration of the Public Water Supply Program, and capacity development.

The DWSRF program will be administered by DEQ and DNRC and will be similar to the existing wastewater SRF program. The bulk of the funds comes to Montana in the form of capitalization grants through the U.S. Environmental Protection Agency. Montana provides the required twenty percent matching funds by issuing general obligation bonds, thus using no state general funds to operate the program. Interest on the project loans is used to pay back the general obligation bonds. The repaid principle on the project loans is used to rebuild the DWSRF fund and is used to fund additional projects and set-asides in the future. The federal capitalization grants are only authorized through federal fiscal year 2002; however, federal and state law require the DWSRF program to be operated in perpetuity.

The 1996 Amendments to the Safe Drinking Water Act include requirements for each state to prepare an Intended use Plan (IUP) for each capitalization grant application. The IUP is the central component of the capitalization grant application, and describes how the state intends to use the available DWSRF funds to meet the objectives of the SDWA

and to further the goal of protecting public health. The IUP contains the following elements:

1. A priority list of projects, including description and size of community.

2. Description of criteria and method used for distribution of funds.

3. Description of the financial status of the DWSRF Program.

4. Description of the short- and long-term goals of the Program.

5. Description of the amounts transferred between the DWSRF and the WWSRF.

6. Description of the set-aside activities and percentage of funds, that will be used from the DWSRF capitalization grant, including DWSRF administrative expenses allowance, PWSS program support, technical assistance, etc.

7. Description of how a State disadvantaged community program will define a disadvantaged system and the amount of DWSRF funds that will be used for this type of loan assistance.

The State must prepare the draft IUP and provide it to the public for review and comment prior to submitting it to EPA as part of its capitalization grant application. Additionally, pursuant to state law, after public comment and review, DEQ will submit the IUP and a summary of public comment to the advisory committee for review, comment and recommendations.

Priority List of Projects

To develop its comprehensive project list, DEQ sent surveys to all community and noncommunity, nontransient water systems in Montana. Of the approximately 900 surveys sent out, about 100 were returned. Surveys also were sent to DEQ's consultant list, and additional projects were identified by flagging systems with repeated or chronic compliance problems. DEQ staff phoned many of these systems in an attempt to build a comprehensive list.

Systems that are in significant non-compliance with regulatory requirements must adopt a plan for returning to compliance as part of their DWSRF funding proposal (if the proposal does not intrinsically address this concern). Projects that primarily expand system capacity or enhance fire protection capabilities may not be eligible for funding unless public health or compliance issues are also addressed by the project.

Appendix 1 contains a comprehensive list of eligible projects in Montana that have expressed interest in the DWSRF or that have been identified as serious public health risks by DEQ. It is not anticipated that all of the projects in Appendix 1 will use SRF funds. However, these systems will be proceeding with projects in the foreseeable future;

cost information is not always available, as some systems have not yet completed the financing plans for their projects at the time the project list was developed.

The following list contains those projects that the DWSRF program feels will be funded with this first capitalization grant in conjunction with the 20% state match. Every effort was made to contact those communities who indicated construction was likely during the 1998 construction season. This list represents those projects most likely to proceed, starting from the highest ranked projects on the comprehensive priority list. It is possible that, if other projects are ready to proceed before those on this list, the actual projects which are ultimately funded may vary from those indicated on this list.

Anticipated Projects List

1. Seeley Lake — Population: 1016. Project cost: $1,440,000. Construction of a surface water treatment facility to comply with the surface water treatment rule. Construction was initiated in June, 1997. Expected loan terms are 3% for 20 years.

2. Laurel — Population: 6000. Project cost: $3,700,000. Construction involving rehabilitation of the existing water treatment plant, including clear well and chemical feed system and other miscellaneous items. Loan terms are undetermined at this time.

3. Whitefish — Population: 5835. Project cost: $2,200,000. Development of a groundwater source or construction of a surface water treatment facility. Loan terms are undetermined at this time.

4. Havre — Population: 10,200. Project cost: $4,000,000. Upgrade of existing surface water treatment facility. Expected loan terms are 4% for 20 years.

5. Chinook — Population: 1526. Project cost: $440,000. Miscellaneous upgrades, and repairs to existing surface water treatment facility. Loan terms are undetermined at this time.

6. Glendive — Population: 4802. Project cost: $554,000. Construction of new intake structure and expansion of existing clear well. Loan terms are undetermined at this time.

7. Sunset West-Missoula County — Population: 110. Project cost: $445,000. Well site improvements as well as transmission, distribution, and storage improvements. Loan terms are undetermined at this time.

8. East Helena — Population: 1638. Project cost: $270,000. Engineering costs related to asbestos contamination elimination project. Loan terms are undetermined at this time.

9. Helena — Population: 30,000. Project cost: $6,000,000. Investigation of groundwater sources to replace aging Missouri River Treatment Plant. An option exists that would include replacing the Missouri River Treatment Plant. Initial stages of this project may be funded with this capitalization grant and remaining costs funded with FY 99 capitalization grant. Expected loan terms are 4% for 20 years.

Criteria and Method Used for Distribution of Funds

The Safe Drinking Water Act of 1974 and the amendments of 1986 and 1996 have imposed many new regulatory requirements upon public water suppliers. Public health and compliance problems related to these requirements, affordability, and readiness to proceed all were considered in developing Montana's project ranking criteria.

DEQ initially proposed balancing these factors, with slightly more emphasis placed on health and compliance and less on affordability and readiness to proceed. In discussions with EPA and with our state's DWSRF Advisory Committee, it became clear that health risks and compliance issues needed to be given even more emphasis, and that readiness to proceed could be eliminated and handled through by-pass procedures.

Projects that address acute risks that are an immediate threat to public health, such as inadequately treated surface water, were given high scores. Proposals that would address lower risk public health threats, such as chemical contaminants present at low levels, would be ranked slightly lower. Proposals that are intended to address existing or future regulatory requirements before noncompliance occurs also were give credit, but were ranked lower than projects with significant health risks.

The demand for the DWSRF funds exceeds the supply of these funds. Therefore, the financial impact of the proposed project on the system users will be considered as one of the ranking criteria. The communities most in need of low interest loans to fund the project will be given priority points.

A summary of the ranking criteria and scoring is listed below. The complete set of scoring criteria is attached to this plan as Appendix 2.

Summary of Ranking Criteria for DWSRF Priority List

1. Documented health risks
   a. Acute health risks - 120 points maximum
   b. Non-acute health risks - 60 points maximum

2. Proactive compliance measures - 50 points max

3. Potential health risks
   a. Microbiological health risks - 25 points maximum
   b. Nitrate or nitrite detects - 25 points

c. Chemical contaminant health risks - 20 points maximum

4. Construction of a regional public water supply that would serve two or more existing public water supplies - 20 points

5. Implementation of a source water protection plan - 25 points

6. Affordability - 20 points maximum

Financial Status

The chart below outlines financial projections and assumptions for the first year of operation for Montana's Drinking Water SRF program. The first year assumes a federal capitalization grant of $14,862,00, matched with $2,972,400 in state general obligation bond funds. We project a six percent interest rate on the state bonds, which is slightly conservative.

Drinking Water SRF Financial Status -- State fiscal Year 1998

Federal capitalization grant		$14,862,000
State general obligation bonds		$ 2,972,400
Average interest rate on state bonds		6%
Reinvestment rate		5%
Set-asides:		
Technical Assistance	2.0%	$ 297,240
Capacity Development	.4%	$ 60,000
Public Water Supply Program	.8%	$ 120,000
Operator Certification	.3%	$ 45,000
Source Water Assessment	10.0%	$ 1,486,200
Administration	4.0%	$ 594,480
Total set-asides	17.5%	$ 2,602,920
Loan rate:		
Net interest		2.25%
Administration surcharge for out years		.75%
Loan loss reserve		1.00%
Total loan rate		4.00%
Subsidies to economically disadvantaged communities		$ 2,972,400

A more detailed description of set-asides may be found later in this plan. Unused administrative funds will be banked, i.e., placed in an account and used for administration in future years, after federal capitalization grants are no longer available and the program must rely solely on revolving funds.

Current projections show Montana's allocation will drop from $14.8 million of federal capitalization funds this year to as low as $7.75 million the next year, then level off in the $9-$10 million range annually for six years. At the end of that time, the program is expected to be capitalized and to operate on its own revenue.

At this time, the Department does not intend to use federal capitalization funds to leverage additional bond funds. However, the project identification and ranking processes indicated that demand for this money significantly outstrips supply. The Department of Environmental Quality and the Department of Natural Resources and Conservation will consult with their contracted financial advisors during the public comment period to identify options for increasing the amount of funds available. Should DEQ and DNRC opt for a leveraged program, the interest rate on the loans could be expected to increase, perhaps by about one percent. Other strategies that will be considered to help meet demand include applying for the state fiscal year 1999 capitalization grant upon receipt of the SFY 98 grant, reviewing different cash flow options for committing funds to large projects that will take several years to complete, and utilizing bypass procedures to fund projects that are ready to proceed.

Long-term goals

1. To build and maintain a permanent, self-sustaining state revolving fund program that will serve as a cost-effective, convenient source of financing for drinking water projects in Montana.

2. To provide a financing tool to help public water supplies achieve and maintain compliance with federal and state drinking water laws and standards for the protection and enhancement of Montana's public drinking water.

Short-term goals

1. To develop and implement a Drinking Water State Revolving Fund Program in Montana.

2. To ensure the technical integrity of Drinking Water SRF projects through the review of planning, design plans and specifications, and construction activities;

3. To ensure the financial integrity of the Drinking Water SRF program through the review of the financial impacts of the set-asides and disadvantaged subsidies and individual loan applications and the ability for repayment.

4. To ensure compliance with all pertinent federal, state, and local safe drinking water rules and regulations; and

5. To obtain maximum capitalization of the funds for the state in the shortest time possible while taking advantage of the provisions for disadvantaged communities and supporting the set-aside activities not directly related to the loan portfolio..

Transfer of funds between the Drinking Water and Clean Water SRFs

At the Governor's discretion, a state may transfer up to 33 percent of the DWSRF capitalization grant to the Clean Water SRF or an equal amount from the Clean Water SRF to the DWSRF. Transfers cannot occur until at least one year after receipt of the first capitalization grant.

Set-Asides

The Drinking Water State Revolving Fund also is charged with funding certain provisions of the federal Safe Drinking Water Act, through the use of "set-aside" accounts. States are given flexibility to set aside specified amounts of the federal drinking water capitalization grant for specific purposes outlined in federal law; in our case these set-asides also are outlined in our authorizing state legislation, HB 483. These set-asides each have different purposes and conditions, and some are mandatory. Montana is funding the following set-asides, each of which is described in more detail in the following sections:

- administration
- technical assistance
- public water supply programs
- capacity development
- operator certification
- source water assessment

Administration

The Department of Environmental Quality requests four percent of the capitalization grant, or $594,000, for program administration. This will cover development of the program and the intended use plan, review of water system facilities plans, review of construction and bid documents, assistance and oversight during planning, design and construction, loan origination work, administering repayments, preparation of bond issuances, and costs associated with the advisory committee and the public comment process. These set-aside also will fund one additional loan management position at DNRC, up to five engineering positions at DEQ, and one administrative support position at DEQ. These costs and FTE were approved by the 1997 Montana Legislature.

Any funds that are set-aside for administration but not actually spent will be "banked;" i.e., they will be placed in an account and used for administration in future years, after federal capitalization grants are no longer available and the program must rely solely on revolving funds. Spending such funds is subject to approval of the Montana Legislature, although federal and bond restrictions will limit use of these funds to purposes related to this program.

Technical Assistance for Small Communities

The purpose of this provision in the 1996 Safe Drinking Water Act Amendments is to allow states to provide technical assistance to public water systems serving populations of 10,000 or less. The Montana DWSRF program will provide needed outreach programs

to small public water supply systems through an integrated approach designed to reach: (1) communities whose systems have chronic violations that threaten public health; (2) communities requesting assistance to correct operation and maintenance problems; and (3) communities whose systems will benefit from regularly scheduled visits designed to increase operator abilities and understanding of water treatment processes. The set-aside will be funded at the maximum 2% of the capitalization grant for a total allocation of approximately $297,000 for the state fiscal year 1998. Any funds not expended in state fiscal year 1998 may be banked for subsequent year's expenditures for this set-aside.

One facet of the technical assistance effort will focus on operation and maintenance. This will be designed to reach a large number of small systems throughout Montana. Services here will include help with ground or surface source water problems, treatment systems, pumping systems, storage systems, and distribution systems. These problems typically can be corrected by technical assistance and on-site training, which also will help identify recurring problems. Public health risks will be reduced through operator training and system assistance providing immediate solutions and protecting public water supplies.

Another facet will focus on planning and management assistance to targeted systems in need of more extensive solutions to chronic problems. These problems are typically related to capacity issues, long-term planning, rate and financial issues, sampling and monitoring, public notification, customer confidence reports, system upgrades and/or improvements, record keeping issues, in-depth trouble shooting, and complex treatment issues.

DEQ will contract these services to technical assistance providers within the state. Expenditures will cover contractor salaries, travel expenses and costs related to reporting and follow-up activities. The period of the contracts is anticipated to run for the remainder of state fiscal year 1998, or until June 30, 1998.

DEQ will evaluate the program, based in part on contractor reports, to identify positive results, recurring problems, and opportunities for improvement. Any changes will be discussed in future intended use plans.

Montana Public Water Supply Program (PWSP)

The purpose of the provisions for State PWSP set-asides in the 1996 Safe Drinking Water Act is to allow states to enhance existing public water supply program efforts through this funding source. The Montana PWSP is the primary regulatory agency for the Safe Drinking Water Act in Montana. In addition, the PWSP assists public water suppliers in the protection of public health through regulatory and compliance assistance.

The Montana Public Water Supply Program (PWSP) proposes to continue and enhance current efforts to assist public water systems as mentioned above, through a set-aside of $120,000. The set-aside would be used for regulatory and compliance assistance provided primarily by contracted services and for administration of those contracted

services. A portion of the set-aside may be used for assistance provided by existing PWSP resources.

The PWSP program would use the set-aside funds to provide regulatory and compliance assistance to help systems understand regulations and how to comply with them. The set-aside also would be used to provide assistance in the areas of engineering design and plan review, operations, maintenance and administration of public water supplies. General regulatory assistance would be provided to help with changing and new regulations. System-specific compliance assistance would be provided to those systems where known compliance and public health issues exist. Some examples of regulatory and compliance assistance that would be provided include:

- Identifying contaminants and potential sources of contamination (e.g. inadequate well construction) and recommending possible solutions
- Conducting Comprehensive Performance Evaluations (CPEs)
- Helping to classify groundwater sources that may be contaminated by untreated surface water (GWUDISW -- groundwater under direct influence of surface water)
- Providing contracted engineering plan review for water system improvements
- Responding to acute contamination events (e.g. coliform bacteria)
- Focused training/technical assistance (e.g. lead and copper)
- Responding to system failures (e.g. water outages)
- Conducting sanitary surveys using contracted services

The Montana PWSP proposes to use approximately $60,000 in each of the last two quarters of state fiscal year 1998. The Montana PWSP expects to see improvements in compliance through sanitary surveys, CPEs, plan review and focused training. The program also expects to see enhanced protection of public health by increasing our ability to respond to acute contamination events, to respond to system failures and to identify contaminants and potential sources of contamination.

Capacity Development

The 1996 Amendments to the Safe Drinking Water Act allow the states to use SRF funds to establish authority to enforce capacity requirements and to implement a capacity development strategy. This will ensure that all new and existing community and non-transient non-community public water supply systems have the necessary technical, financial and managerial capability to comply with all of the primary requirements of the SDWA.

If a state does not obtain the authority to conduct this enforcement and does not implement these strategies, EPA will withhold a portion of its DWSRF capitalization grant. Additionally, the State also will lose substantial portions of successive capitalization grants if it does not develop and implement strategies to assist existing water systems with capacity development. The portions of the grant that may be lost are 10% in FY 2001, 15% in FY 2002, and 20% of each subsequent year's funds.

The State of Montana already has obtained the necessary legal authority to enforce capacity requirements. The 1991-1992 Legislature through SB407 provided the authority to review water systems' viability or capacity [re. 75-6-103(2)(g) MCA]. The Department of Environmental Quality has previously developed some strategic options with a private contractor that will serve as a strong basis for final capacity development requirements. Additional contracted services will be utilized to complete this overall strategy and to prepare draft administrative rules to propose to the State's Board of Environmental Review for adoption. DEQ staff will seek guidance from EPA and the National Drinking Water Advisory Council in this effort.

A total set-aside of $60,000 is proposed for state fiscal year 1998. It is anticipated that approximately $40,000 of this set-aside can be utilized by January 1, 1998, for continued development of the technical, managerial, and financial strategies through contracted services. An additional $10,000 shall be employed during the rest of the state fiscal year to complete the strategies and to prepare draft administrative rules.

Coordination of training and certification efforts for nontransient, noncommunity system operators also will be funded with this set-aside to help address the technical and managerial capacity of public water systems in Montana. It is expected that $10,000 will be spent on this effort in state state fiscal year 1998. More specific information is presented under the Operator Certification set-aside summary within this document.

Operator Certification

DEQ will set-aside $45,000 for the Public Water Supply Section to address certification of non-transient, noncommunity water systems and to meet additional training requirements imposed by the 1986 and 1996 SDWA amendments. The funding will be used to hire a new administrative support position, and provide associated equipment and operating expenses. Tasks will include updating the certification database with non-transient system information, and classifying each system with the appropriate certification class. This funding will be matched dollar-for-dollar by state funds, in addition to the overall twenty-percent match requireed for all elements of the program. Existing operator certification fees will be used for the match.

Source Water Assessment Program

Section 1453 of the 1996 Amendments to the federal Safe Drinking Water Act (SDWA) requires primacy states to "*carry out directly or through delegation, a source water assessment program.*" A Source Water Assessment Program (SWAP) will delineate the boundaries of an assessment area from which public water systems (PWS) derive their water (surface water or groundwater) and then identify the origins of regulated contaminants to assess the susceptibility of the PWS to those contaminants. The program will be developed according to U.S. EPA guidance issued on August 7, 1997 and will be built around Montana's existing wellhead protection program.

To avoid duplication and to encourage efficiency the state source water assessment program will use all reasonably available hydrogeologic information such as data generated by PWS vulnerability assessments, sanitary surveys, routine monitoring, wellhead protection delineations, and delineations or assessments completed as part of a watershed initiative. Emphasis will be placed on the use of a Geographic Information System to ensure the opportunity to use program collected or compiled information within DEQ and other state or federal agencies. Output products of the source water assessment program will include maps of source water protection areas showing the delineations and inventory of potential contaminants, vulnerability assessments necessary for targeted monitoring for chemical contaminants and monitoring relief, and useful information for future regulatory decisions relating directly to the public water supply program and indirectly to other water quality issues such as water quality standards, watersheds, statewide water quality monitoring, and Total Maximum Daily Loads.

Montana currently has approximately 1,900 public water systems classified as either community, non-transient, or transient. Water from community and non-transient type systems (about 800 total) generates greater exposure for consumers to potential contaminants than does water from transient systems. Therefore, DEQ will develop a source water assessment program that prioritizes implementation based on PWS classification, size, and assumed risk based on known source water characteristics.

DEQ intends to develop and implement the SWAP using data from local, city, state, and federal governments using agency staff as well as contracting out additional work where necessary. The $1,486,200 set-aside anticipated for delineation and assessment will be spent on program development and implementation over the next four years. Proposed activities for the remainder of state FY 97 will include funding contractual work necessary to compile and organize existing information, and hiring necessary staff to begin program development and to oversee contracted work. Program development includes establishing a technical and citizen advisory committee(s) and holding public hearings prior to submittal of the state program to EPA for review. Activities for state FY 98 will likely include funding contractual work to gather source inventory data, and hiring necessary staff to begin program implementation and to oversee contracted work.

Public Water System Supervision

Section 1452(g)(2)(B) of the SDWA allows Montana to set aside a portion of the capitalization grant to "administer or provide technical assistance through source water assessment programs". The Public Water Supply Section will utilize the anticipated $100,000 set-aside for federal FY 98 to develop the mechanism and database by which this program will be implemented. Approximately $75,000 of the set-aside will fund contracted services to develop a complete database of source location and construction information through the Montana State Library/Natural Resources Information Systems (NRIS) and the Montana Bureau of Mines and Geology (MBMG). The effort will begin by utilizing the existing Groundwater Information Center database from MBMG, and the existing Public Water Supply Section database of public water supply information. The goal of this effort is to develop a complete database of public water supply source

information that includes location, construction and water quality data. The information will be updated as necessary and will be available to the public. This information will be the primary resource to begin the larger source water assessment effort described above. After completion of this work, the information regarding public water supplies will be the same in each database (DEQ, NRIS & MBMG). Since each database serves a different clientele and purpose, this effort should be an enhancement to each respective database rather than an unnecessary duplication of effort. The public will benefit by having greater access to more accurate information. Creation by NRIS of a new "layer" (or layers) of public water supply source information in the GIS system is one very promising aspect of this proposal.

A portion of the $100,000 set-aside also will be used for contractual work to develop the methods for source delineations and contaminant assessments. The methods could then be used by local personnel, DEQ staff or qualified consultants to perform the required source water delineations and assessments.

Subsidies to Disadvantaged Communities

Communities seeking a DWSRF loan that meet the disadvantaged criterion listed below may receive an additional subsidy on their SRF loans, beyond the standard below-market rate financing. This includes communities that will meet the disadvantaged criterion based on projected rates as a result of the project.

A community is considered economically disadvantaged when its combined monthly water and wastewater system rates are greater than or equal to 2.2% of the community's Median Household Income (MHI). If the community has only a water system, the percentage is 1.4% of the community's MHI. These percentages are consistent with affordability requirements for other state funding agencies in Montana.

The water and sewer rates used for this calculation include new and existing debt service and required coverage, new and existing operation and maintenance charges, and depreciation and replacement of equipment.

To assist these economically disadvantaged communities, the DWSRF loan program will provide to qualifying communities a 1.0% interest rate reduction. The total amount of reduced interest rate loans that the DWSRF will issue under any single capitalization grant will be limited to 20% of that capitalization grant. This measure is taken to ensure that the corpus of the DWSRF fund will be maintained and thus that the program will be able to operate in perpetuity, while still providing some additional assistance to economically disadvantaged communities. Qualifying disadvantaged communities also are eligible for extended loan terms of up to 30 years, provided the loan term does not exceed the design life of the project.

Systems that are expected to receive reduced interest rates or extended loan terms in the next year are identified on the "Anticipated Projects List" within the section describing the project list.

Appendix 1 - Comprehensive Project List

Rank	Points	Name	Description	Amount	Population
1	136	LIBBY CITY OF	SURFACE WATER TREATMENT PLANT	UNKNOWN	2626
2	136	SEELEY LAKE	SURFACE WATER TREATMENT PLANT	1,440,000	1016
3	131	HILL CO WATER DISTRICT	WATER FILTRATION PLANT	UNKNOWN	3,500
4	128	THOMPSON FALLS, CITY OF	SURFACE WATER TREATMENT PLANT	UNKNOWN	1723
5	123	EAST GLACIER CO W&S DISTRICT	SURFACE WATER TREATMENT PLANT	UNKNOWN	1638
6	108	SEELEY LAKE - THE LODGES	DISTRIBUTION LINE EXTENSION COMBINE 2 PWS	$150,000	
7	106	ABSAROKEE	FILTRATION & DISINFECTION	$200,000	1067
8	106	SOUTH HILLS WATER & SEWER DISTRICT	PUMP STATION, WATER TREATMENT,	$261,000	
9	104	LAUREL, CITY OF	WTP RENOVATION INCL: CLEARWELL, CHEM FEED, REPAIRS, RESERVOIR MTNCE.	$3,700,000	6000
10	100	SOUTH CHESTER WATER USERS	NEW WATER SOURCE	UNKNOWN	LESS 100

Appendix 1 - Comprehensive Project List

Rank	Points	Name	Description	Amount	Population
11	99	WHITEFISH, CITY OF	TO BRING SYSTEM INTO COMPLIANCE WITH SWTR	$2,300,000	5835
12	87.5	PIEGAN BORDER STATION	SWTR COMPLIANCE ISSUES	UNKNOWN	
13	82.5	HAVRE, CITY OF	UPGRADE PLANT	$4,000,000	10,200
14	75	CHINOOK	CHLORINE CONTACT BASIN, RAW WATER INTAKE, BACKWASH LAGOONS, FILTERS, INLET FLOW METER, CHEMICAL FEED SYSTEM.	$360,000	1,526
15	75	THREE FORKS, CITY OF	ADDITIONAL SUPPLY	$1,500,000	1800
16	74	PHILIPSBURG, TOWN OF	DEV WELLS	$1,000,000	925
17	72	EASTVIEW HOMEOWNERS ASSN	NEW SOURCE OR TREATMENT	UNKNOWN	
18	70	GLENDIVE, CITY OF	INTAKE STRUCTURE, CLEAR WELL	$554,000	4802
19	69	MISSOULA COUNTY-SUNSET WEST WATER PROJ	WELL SITE IMPROVEMENTS, TRANSMISSION, DISTRIBUTION, STORAGE, MONITORING	$445,000	110
20	67.5	MIDVALE WATER & SEWER DISTRICT	PURCHASE PRIVATELY OWNED WATER SYSTEM	UNKNOWN	

Appendix 1 - Comprehensive Project List

Rank	Points	Name	Description	Amount	Population
21	65	RICHEY, TOWN OF	TREATMENT FACILITY	$495,000	260
22	60	CEDAR PARK SUBDIVISION	NEW SUPPLY OR TREATMENT	UNKNOWN	
23	60	EAST HELENA, CITY OF	ELIMINATE ASBESTOS CONTAMINATION	$3,603,125	1638
24	60	HELENA, CITY OF	WELLS, CLEARWELL, WINNE RESERVOIR STAGE 1	$6,200,000	30,000
25	60	HELENA, CITY OF	STAGE 2	$2,800,000	30,000
26	57.5	DEER LODGE	WELL, PUMP, WELL HOUSE, TELEMETRY, CONTROLS, ETC	$204,500	3375
27	55	AVON SCHOOL	REPLACE UV SYSTEM	$3,000	50-60
28	55	FLATHEAD CO WATER & SEWER DIST #1	DISTRIBUTION	$132,513	4,000
29	55	HIGHWOOD CO WATER & SEWER DIST	STORAGE AND DISTRIBUTION COORDINATE WITH HIGHWAY PROJECT - PHASED	$854,000	
30	55	JOLIET, CITY OF	INSTALL METERS, WELL, CHLORINATION	$125,000	637

Appendix 1 - Comprehensive Project List

Rank	Points	Name	Description	Amount	Population
31	55	LIMA	TRANSMISSION LINE	UNKNOWN	260
32	55	ROCKY BOYS REGIONAL WATER SYSTEM	REGIONAL WATER SYSTEM	$180,000,000	45,743
33	55	TIBER COUNTY WATER DISTRICT	REPLACE FILTER MEDIA REPLACE INTAKE PUMP	$38,500	300 FAM
34	52.5	ALBERTON	TREATMENT, STORAGE, DISTRIBUTION	$4,000,000	402
35	52.5	HOT SPRINGS, TOWN OF	DISTRIBUTION	UNKNOWN	500+
36	50	BIG SKY WATER & SEWER DIST #363	WELL, STORAGE, TRANSMISSION, TELEMETRY	$5,000,000	1000-4000
37	50	CHESTER, TOWN OF	TREATMENT, STORAGE, DISTRIBUTION	$834,000	950
38	50	TAMARACK WOODS HOA	WELL HEAD PROTECTION	UNKNOWN	
39	50	TWIN BRIDGES, TOWN OF	WATER SUPPLY, STORAGE, DISTRIBUTION	$1,247,000	322
40	49	SHELBY, CITY OF	WELL FIELD & STORAGE	$4,500,000	3,500

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Rank	Points	Name	Description	Amount	Population
41	48	SHELBY, CITY OF	DISTRIBUTION - IMMEDIATE	$784,000	3,500
42	47.5	OILMONT CO WATER DISTRICT	EXTEND DISTRIBUTION SYSTEM	UNKNOWN	600
43	47	ELK MEADOWS RANCHETTES	SYSTEM UPGRADES, STORAGE, SUPPLY	$300,000	
44	47	SWAN RIVER SCHOOL	PRESSURE TANKS, PIPING, NEW BUILDING.	UNKNOWN	200
45	45	CONRAD, TOWN OF	TREATMENT PLANT UPGRADES	$1,500,000	3,000
46	45	CORAM	SUPPLY, STORAGE, DISTRIBUTION	$400,000	282
47	45	CORAM	REPLACEMENT OF MAINS	$728,000	282
48	45	CUSTER	COMMUNITY WATER SYSTEM	$1,000,000	180
49	45	CUT BANK, CITY OF	WATER TANK(S) REPLACEMENT & DISTRIBUTION	$555,000	
50	45	DUTTON, TOWN OF	NEW WELL	UNKNOWN	447

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Rank	Points	Name	Description	Amount	Population
51	45	LAUREL, CITY OF	WATER PLANT REHAB,STORAGE DISTRIBUTION - FUTURE	$6,425,000	6000
52	45	ROUNDUP, CITY OF	WATER SYSTEM UPGRADE	UNKNOWN	1807
53	45	TIBER COUNTY WATER DISTRICT	DISTRIBUTION, TELEMETRY, CONTROLS	UNKNOWN	300 FAM
54	40.5	SUNBURST, TOWN OF	WATER STORAGE TANK.	$100,000	450
55	40	BROADVIEW, TOWN OF	WELL & DISTRIBUTION UPGRADES	$180,000	143
56	40	FLATHEAD CO WATER & SEWER DIST #8	ADDITIONAL WELL	85,000	490
57	40	HAVRE, CITY OF	DISTRIBUTION	$1,000,000	10,200
58	40	SHERIDAN, CITY OF	SUPPLY	UNKNOWN	709
59	39	ARLEE SCHOOL DISTRICT #8J	CHEM TREATMENT	$6,980	555
60	37.5	ARLEE WATER DIST	WATER TREATMENT, DISTRIBUTION	UNKNOWN	

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Rank	Points	Name	Description	Amount	Population
61	37.5	GLENDIVE, CITY OF	DISTRIBUTION	$736,052	4802
62	37.5	HAMILTON CITY OF	REPLACEMENT OF SMALL WATER MAINS	$453,096	5,820
63	37.5	HAMILTON, CITY OF	WELL, WELL HOUSE, ETC.	$181,125	5,820
64	35	ABSAROKEE	DISTRIBUTION, STORAGE	$3,340,000	1067
65	35	ANACONDA-DEER LODGE	REDEVELOP HEARST LAKE/FIFER GULCH WATER SUPPLY	$874,448	6,224
66	35	CORAM/GLACIER CENTER INC	UPDATE SYSTEM	$1,400,000	
67	35	CULBERTSON, TOWN OF	WATER STORAGE TANK	$100,000	825
68	35	DARBY TOWN OF	TWO WELL HOUSES	$100,000	650
69	35	DARBY TOWN OF	STORAGE TANK, ADDITIONAL WELL	UNKNOWN	650
70	35	FORT BENTON, CITY OF	DISTRIBUTION	$600,000	1660

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Rank	Points	Name	Description	Amount	Population
71	35	LAKESIDE CO WATER DISTRICT	METERS, MAINS,NEW WELL, CONTROLS, STORAGE TANK	$1,123,115	501
72	35	LOCKWOOD W U ASSN	INTAKE PRESEDIMENTATION	$1,118,700	5400
73	35	LOCKWOOD W U ASSN	FILTER TO WASTE	$93,000	5400
74	35	NEIHART, TOWN OF	DISTRIBUTION	UNKNOWN	
75	35	POPLAR, CITY OF	WATER MAIN LOOP	$295,000.00	3100
76	35	SOUTH HILLS WATER & SEWER DISTRICT	EXPAND CAPACITY	$522,000	350
77	35	VIRGINIA CITY, TOWN OF	STORAGE TANK AND TRANSMISSION LINE	$763,800	
78	35	WEST GLACIER WATER USERS INC	DISTRIBUTION LINE	$20,000	1000
79	35	WHITE SULPHUR SPRINGS	BACKUP WATER SYSTEM	$75,000	
80	32.5	COLUMBIA FALLS, CITY OF	DISTRIBUTION SYSTEM IMPROVEMENTS	$422,000	3200

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Rank	Points	Name	Description	Amount	Population
81	32.5	SUNNY MEADOWS HOA	UPGRADE SYSTEM	UNKNOWN	
82	30	BAINVILLE, TOWN OF	STORAGE, DISTRIBUTION - INTERIM FINANCING	$1,000,000	
83	30	BIG TIMBER WATER WORKS	TREATMENT AND DISTIRBUTION UPGRADES	$3,174,500	1568
84	30	BUTTE SILVERBOW WATER DEPT	DISTRIBUTION	UNKNOWN	
85	30	FORT PECK RURAL WATER DISTRICT	NEW WATER SYSTEM	$960,001	744
86	30	HARLEM, CITY OF	TREATMENT PLANT UPGRADES	$600,000	
87	30	LAKESIDE CO WATER DISTRICT	REPLACE WATER MAINS	$1,000,190	501
88	30	LOMA CO SEWER & WATER DISTRICT	SETTLING POND.	$100,000	495
89	30	LOMA CO SEWER & WATER DISTRICT	TREATMENT PLANT UPGRADE	$99,000	495
90	30	OPHIR SCHOOL DISTRICT #72	GEN EXPANSION ADDITION OF SIX CLASSROOMS AND NEW LIBRARY.	$2,093,000	1000

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Rank	Points	Name	Description	Amount	Population
91	30	PLENTYWOOD, CITY OF	WATER TREATMENT FACILITY (REFINANCE)	$923,000	2136
92	30	PLENTYWOOD, CITY OF	PHASE 1 & II	$3,000,000	2136
93	30	RAMSAY SCHOOL	MICROBIAL DISINFECTION	$14,500	100
94	30	TAMARACK WOODS HOA	WELLHEAD - VENTING	$2,000	
95	27.5	TROY, CITY OF	REPLACEMENT OF WATER SYSTEM.	$1,500,000	
96	25	HAMILTON, CITY OF	CONSTRUCT GROUND LEVEL RESERVOIR	$610,000	21,126
97	25	MISSION VIEW H.O.A.	DISTRIBUTION	UNKNOWN	97 +
98	22.5	HAVRE, CITY OF	EMERGENCY REPAIR TO STORAGE TANK	$200,000	10,200
99	22.5	SEELEY LAKE	STORAGE TANK IMPROVEMENTS	$225,000	1016
100	20	MEADOW HILLS HOA	WELL, DISTRIBUTION	$35,000	138

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Rank	Points	Name	Description	Amount	Population
101	19	RIVERSHORE M.H.P.	CONNECT TO CITY WATER	$170,000	100
102	17.5	SWAN RIVER SCHOOL	WELLHEAD PROTECTION PROGRAM.	UNKNOWN	200
103	15	BIRCHWOOD DUPLEXES	HOOK UP TO MISSOULA WATER & SEWER	UNKNOWN	33
104	15	RIVERSIDE TRAILER COURT	ORTHOPHOSPHATE INHIB	UNKNOWN	45

Appendix 2: Ranking Criteria for DWSRF Priority List

1. Documented health risks

a. Acute health risks - 120 points max.

Fecal coliform or other pathogens - two or more boil orders in any twelve-month period. Risk must be documented as a reoccurring and unresolved problem that appears to be **beyond the direct control** of the water supplier.

Surface Water Treatment Rule (SWTR) treatment technique violation - source must have been developed as an unfiltered supply, an inadequately filtered supply, Ground Water Under the Influence of Surface Water (GWUISW), and/or without adequate contact time **prior to the development of EPA** SWTR regulations that would have mandated improved treatment.

Chemical contaminants (other than nitrate or nitrite) - risk must be documented as reoccurring and unresolved problem confirmed through quarterly sampling (or as determined by the department) that appears to be **beyond the direct control** of the water supplier. Contaminants must be present at levels exceeding Unreasonable Risk to Health (URTH) levels.

Nitrate or nitrite Maximum Contaminant Level (MCL) violations - MCL violation must be confirmed through routine and check sampling as required by the department.

<u>Guidance for ranking:</u> For unfiltered surface water, use 70% of max. points in this category unless there have also been documented problems with turbidity, fecal contamination or disease outbreaks. Award an additional 10% of max points for each of the following: boil order resulting from a turbidity violation, fecal MCL violation, documented disease outbreak. If disease outbreak has been documented, award maximum points.

For filtered surface water systems, a CT violation without boil orders or fecal MCL violations, etc, should receive 50% of maximum points under this category. Award additional points for the additional violations.

Example: an unfiltered surface water system has had turbidity violations resulting in a boil order, as well as a fecal MCL violation. There have been no documented disease outbreaks. The system would get 70% + 10% + 10% = 90% of max points in this category.

b. Non-acute health risks - 60 points max.

(Non-fecal) coliform bacteria - two or more Total Coliform Rule (TCR) (non-acute) MCL Significant Non-Compliances (SNCs) automatically qualify if the problem is documented as a regularly reoccurring and unresolved problem that is **beyond the direct control** of the water supplier.

Man-made chemical contaminants - problem must be documented as a reoccurring and unresolved problem that is **beyond the direct control** of the water supplier. Contaminants must be present at levels that are above the PQL, and less than the URTH level. Contaminants must be detected at least twice during quarterly monitoring in any twelve month period. MCL violations may or may not occur.

Natural chemical contaminants - problem must be documented as a reoccurring and unresolved problem through quarterly sampling (or as otherwised determined by the department) that is **beyond the direct control** of the water supplier. Contaminant levels must be confirmed as an MCL violation, but the averaged value of the violation must be less than the URTH level.

<u>Guidance for Ranking:</u> Start with 50% of maximum points in this category for lead and copper or other chemical violations and go up or down in 10% increments depending on the severity of the problem.

2. Proactive compliance measures - 50 points max.

Improvements in infrastructure, management or operations of a PWS that are proactive measures to remain in compliance with current regulatory requirements, to ensure compliance with future requirements, or to prevent future, potential SDWA violations.

<u>Guidance for ranking:</u> If a system is reacting to an existing documented health violation under category 1a or 1b, it should receive <u>no</u> points under this category. Emphasis should be toward a <u>deliberate</u> proactive approach to potential health problems. A system with points awarded in this category typically will currently be in compliance with most or all SDWA regulations.

3. Potential health risks

a. Microbiological health risks - 25 points max.

Occasional but reoccurring detects of coliform bacteria resulting in one or less TCR (non-acute) MCL violation in any twelve month period.

Reoccurring and unresolved problems with non-coliform growth that are beyond the direct control of the water supplier, and result in inconclusive coliform bacteria analyses.

Water distribution pressures that routinely fall below 35 psi at ground level in the mains, or 20 psi at ground level in customers' plumbing systems. Problems must be the result of circumstances beyond the direct control of the water supplier.

b. Nitrate or nitrite detects - 25 points

Occasional but reoccurring detects of nitrate or nitrite at levels above the MCL that occur once or less in a twelve month period. MCL violations are not confirmed by check sampling.

c. Chemical contaminant health risks - 20 points max.

Occasional but reoccurring detects of man-made chemical contaminants that occur once or less in any twelve month period. Levels must be above the PQL, but below the URTH level. MCL violations do not occur because of the presence of the contaminant is not adequately documented through check-sampling.

Occasional but reoccurring detects of natural chemical contaminants (other than nitrate or nitrite) at levels above the MCL that occur once or less in a twelve month period. MCL violations are not confirmed by check sampling.

<u>Guidance for ranking:</u> No additional points should be given in this category for contaminants already addressed in categories 1 or 2. However, if a project scope includes remedies for different types of violations, it should receive points in each of the applicable categories.

4. Construction of a regional public water supply that would serve two or more existing public water supplies - 30 points.

Regionalization would increase the technical, managerial and/or financial capacity of the overall system, would result in some improvement to public health, or bring a PWS into compliance with the SDWA.

5. Implementation of a source water protection plan - 25 points

Plan would have to address the following in accordance with department criteria:

a. Delineation of the source water protection area.

b. Identification and control of contaminants within a source water protection area.
c. Public education to minimize the use and occurrence of contaminants within a source water protection area.

<u>Guidance for ranking:</u> All or part of the project to be funded must include implementation of a source water protection plan which is approved by the department. If a system has implemented a source water protection plan, but is not to be funded as part of the proposed project, no points would be awarded under this category.

6. Affordability (Only one applicable - maximum 20 points)

Expected average household combined water and sewer user rates, including debt retirement and O&M are:

- greater than 3.5% of MHI - 20 pts
- between 2.5% and 3.5% (inclusive) of MHI - 15 pts
- between 1.0% and 2.5% (inclusive) of MHI - 10 pts
- 1.0% or less of MHI - 5 pts

DWSRF Priority List Bypass procedures.

If it is determined by the Department that a project or projects are not ready to proceed or that the project sponsors have chosen not to use the DWSRF funds, other projects may be funded in an order different from that indicated on the priority list. If the Department chooses to bypass higher ranked projects, it should follow the bypass procedure.

The bypass procedure is as follows:

1. The Department shall notify, in writing, all projects which are ranked higher than the proposed project on the DWSRF priority list, unless it is known that a higher project will not be using DWSRF funds.

2. The notified water systems shall have 15 calendar days to respond in writing with any objections they may have to the funding of the lower ranked project.

3. The Department shall address, within a reasonable time period, any objections received.

Emergency bypass procedures.

If the Department determines that immediate attention to an unanticipated failure is required to protect public health, a project may be funded with DWSRF funds whether or not the project is on the DWSRF priority list. The Department will not be required to solicit comments from other projects on the priority list regarding the emergency funding.